

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 0920

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E.O. 11652: NA

TAGS: EINV, RP

SUBJECT: PHILIPPINE INVESTMENT POLICY

REF:STATE 34079

1. REFTEL ASKS WHETHER GOP MIGHT SWITCH FROM EXPORT-INTENSIVE TO IMPORT -SUBSTITUTION POLICY. AS INDICATED BY STATEMENT OF BOI GOVERNOR LANUZA, THERE ARE THOSE ADVOCATING SUCH A POLICY CHANGE, LEADING TO DISCUSSIONS OF POLICY MERITS.

2. ADVOCATES OF IMPORT-SUBSTITUTION POLICY STATE THAT PHILIPPINES IS UNDULY VULNERABLE TO WORLD-WIDE RECESSION BECAUSE DEMAND FOR ITS EXPORTS DROPS OFF AT SUCH TIMES. IMPORT -SUBSTITUTION, THEY ARGUE WOULD EXPAND PRODUCTION FOR DOMESTIC USAGE, WHICH WOULD BE LESS SUSCEPTIBLE TO VOLATILE SHIFTS DUE TO WORLD MARKET FACTORS.

3. ANOTHER ELEMENT UNDOUBETDLY PRESENT IS UNUSUAL COMBINATION OF HIGH LEVEL OF RESERVES AND LIKELIHOOD OF LARGE PAYMENTS DEFICITS IN NEAR FUTURE. TEMPTATION IS GREAT, AT TIME FALLING WORLD DEMAND AND RISING DOMESTIC PRICES, TO SEEK TO HOLD ON TO
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FOREIGN EXCHANGE BY RESTRICTIVE, IMPORT-SUBSTITUTION

MEASURES.

4. HOWEVER, GOVERNOR CONRADO SANCHEZ OF BOI, IN CHARGE OF NON-TRADITIONAL EXPORTS, ARGUES STRONGLY ON OPPOSITE SIDE. HE POINTS OUT: A) 93 PERCENT OF CONSUMER ITEMS USED IN PHILIPPINES ARE LOCALLY PRODUCED, SO THAT SCOPE OF POSSIBLE IMPORT SUBSTITUTION AT CONSUMERS LEVEL IS LIMITED; B) CONSIDERABLE OPPORTUNITIES REMAIN FOR PROCESSING LOCALLY OF EXPORT PRODUCTS BEING PRESENTLY EXPORTED IN UNPROCESSED FORM; C) CAPITAL REQUIREMENTS FOR PRODUCTION OF INTERMEDIATE AND CAPITAL GOODS FOR DOMESTIC MARKET ARE GREATER THAN FOR PRODUCTION OF POTENTIAL PHILIPPINE EXPORTS.

5. EMBASSY INCLINED THINK SANCHEZ VIEWS WILL PREVAIL

WITHIN BOI, ALTHOUGH PERSISTENT BALANCE-OF -PAYMENTS DIFFICULTIES IF THEY MATERIALIZE MAY LEAD TO GRADUAL EXPANSION OF IMPORT RESTRICTIONS BY CENTRAL BANK IN PREFERENCE TO HEAVY DRAW-DOWN OF RESERVES OR SHARP DEVALUATION OF PESO.
SULLIVAN

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